

CONFIDENTIAL

CONFIDENTIAL

50X1-HUM

Investments for East Germany's industry are channelled in a direction to conform with changed Soviet reparation demands. Whereas during the first years of occupation the demand for consumers' goods was stressed, Soviet interest later changed to emphasize the demand for capital and investment goods. Therefore, basic industries, e.g., the machine-building and metallurgical industries, are being given priority over light industry at present. In 1949, East Germany's light industry received a total of 114 million Deutsche marks, the electric power industry 60 million, and the chemical industry 19 million, while heavy industry -- the main source of reparations -- received 215 million Deutsche marks; of this sum the machine-building industry alone received 86 million and the metallurgical industry 61 million.

The Soviet Handelsgesellschaften (trade companies are usually referred to as SHG; however, in official Soviet German-language communications they are referred to as "All-Unionsvereinigungen" (All-Union Companies), or V/O [transliteration of the Soviet abbreviation]). These V/O are part of the far-reaching network of the Soviet Foreign Trade Ministry. Abroad, the main representatives of this ministry are Soviet trade delegations, which are also diplomatic representatives from the Soviet point of view. Subordinate to them, though not officially, are the V/O and in addition, the representatives of the variety of Soviet trade companies which have their central office in Moscow. The V/O in East Germany receive their instructions from the Soviet Foreign Trade Ministry, via Foreign Trade Departments in the Soviet Control Commission, with which they collaborate closely.

The following trade companies exist in East Germany at present:

1. Raznoeksport - for export and import of drugs, medical equipment, foods, raw materials for the food industry, tobacco and tobacco products, leather goods, construction materials, and similar goods.
2. Raznoimport - for export and import of nonferrous metals, rubber, rubber goods, and similar items.
3. Tekhnoeksport - for export and import of machines for the automobile industry, agricultural machinery, tractors, electrical industry goods, metal-processing machines, and similar goods. In addition, the company participates in technical assembly work and construction projects abroad.
4. Soyuzpromeksport - for export and import of industrial and handicraft products.
5. Tekhnopromimport - for export and import of equipment for the chemical, construction, food-processing, paper, rubber, textile, printing, leather goods, and other industries; telephone and telegraphic equipment, control and precision machines, and laboratory, X-ray, and optical equipment.
6. Promsyr'yeimport - for export and import of ferrous and nonferrous metals, iron alloys, cable equipment, and similar goods.
7. Mashinoimport - for export and import of mining equipment, metallurgical machinery, power plant installations, elevators, transportation equipment of all types, rolling stock, and similar goods.
8. Eksportilen - for export and import of flax, yarn, fibers, jute, cotton, wool, products made of these materials, and similar goods.
9. Eksportles - for export and import of wood in all stages of processing, paper and paper products, cellulose and similar goods.

- 2 -

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

50X1-HUM

10. Soyuzpushchina - for export and import of furs and pelts, semifinished and finished, live animals and similar items.

The "Osobtorg" and "Voyentorg" are being dissolved, but "Derutra" (German-Russian Transportation Company), "Derunapht" (German-Russian Petroleum Company), and "Intourist" (Russian tourist agency which operates hotels, restaurants, etc.) are being expanded.

As can be seen from the above, all the trade companies deal in exports as well as in imports. The main objective of the V/O at present is to channel exports from East Germany to the USSR as well as to other countries. The Soviet Control Commission gives the V/O licenses to buy goods from German firms, which are paid for at 1944 ceiling prices. Another function of the V/O is the processing of products; e.g., they buy raw materials abroad, have them processed in Germany, and re-export them. The profit remains with the V/O while the remuneration for processing is paid to German firms at 1944 ceiling prices. All foreign exchange deriving from these business deals goes to the Garantie and Kreditbank, whereby extraordinary profits accrue to the Soviets. The actual delivery firms never learn the prices which were paid abroad for their products.

Essentially, the following types of transactions are engaged in by the V/O:

1. Delivery against foreign currency.
2. Delivery against other goods.
3. Processing contracts to be paid in
 - a. foreign currency,
 - b. raw materials or other goods.

Black-market activity is a special field of the V/O. Raznoeksport and Razno-import in particular have been charged with this activity. They bought gold, porcelain, carpets, furs, and similar items during the currency reform, and have sold cigarettes at black market prices. The profits gained from these black market activities can hardly be estimated.

- E N D -

- 3 -

CONFIDENTIAL

CONFIDENTIAL